Excel Journal of Engineering Technology and Management Science
(An International Multidisciplinary Journal)
Vol. I No. 3 December – January 2012-13 (Online) ISSN 2277-3339

# TIME TO MANAGE PUBLIC SECTOR UNDERTAKINGS(PSUS)

* ***Dr. Shaikh Saleem,*** Director, Millennium Institute of Management, Aurangabad.

## INTRODUCTION:

Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction. PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives and maximize long-term goals.
As agriculture is the backbone of Indian economy, Public Sector Banks (PSBs) play a crucial role in pushing the agricultural economy on to the progressive pathway and helping develop rural India. Moreover, PSUs play a substantial role in the rural development by providing basis infrastructural services to citizens. The opening of the economy has changed the market dynamics with private sector playing a greater role in shaping the industrial landscape. As a consequence, the Central Public Sector Enterprises (CPSEs) have been exposed to competition from domestic and multi-national corporations. The recent economic downturn has reaffirmed the confidence in public sector enterprises in India as they have emerged relatively intact as compared to private companies. Nonetheless, not all CPSEs performed that well. During 2009-10, 158 CPSEs of the total 249 reported cumulative net profit of INR 1.08 lakh crores.

Public enterprises that have reformed their businesses and benchmarked their performance with the best practices are able to perform better than the rest of the CPSEs. CPSEs are transforming in terms of organization, financials and operations in order to narrate a turnaround story. However, many CPSEs are still facing several issues such as financial autonomy, bureaucracy, corruption, risk aversion, ineffective governance, political interference, inability to recruit the right talent, and corruption. Keeping in view that these CPSEs help shoulder India's economic growth, reviving the not so performing enterprises is a key imperative of the Government of India. In this article I have tried to discuss the very objectives of starting PSUs post-independence, growth of PSUs, its contribution to economy, its performance, Rich resources available with PSUS such as surplus land and cash reserves, disinvestment policy of the government, challenges faced by PSUs and in conclusion I have tried to answer the questions that - Is public ownership of industry inherently inferior to private ownership? And Is plugging the fiscal deficit a sound reason for disinvestment. The findings of many research studies on the performance of PSUs shows that the perception that, the private sector is uniformly superior to the public sector rests on weak evidential foundation.

## EVOLUTION OF PUBLIC SECTOR UNDERTAKING

Post independence, India was grappling with grave socio-economic problems, such as inequalities in income and low levels of employment regional imbalances in economic development and lack of trained manpower, weak industrial base, inadequate investments and infrastructure facilities, etc. Hence, the roadmap for public sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs. Initially, the public sector was confined to core and strategic industries. The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new fields like manufacturing consumer goods, consultancy, contacting and transportation etc. The industrial Policy Resolution 1948 outlined the importance of the economy and its continuous growth in production and equitable distribution. In this process, the policy envisaged active engagement of the State in development of industries.

The Industrial Policy Resolution 1956 classified industries into three categories with respect to the role played by the State.

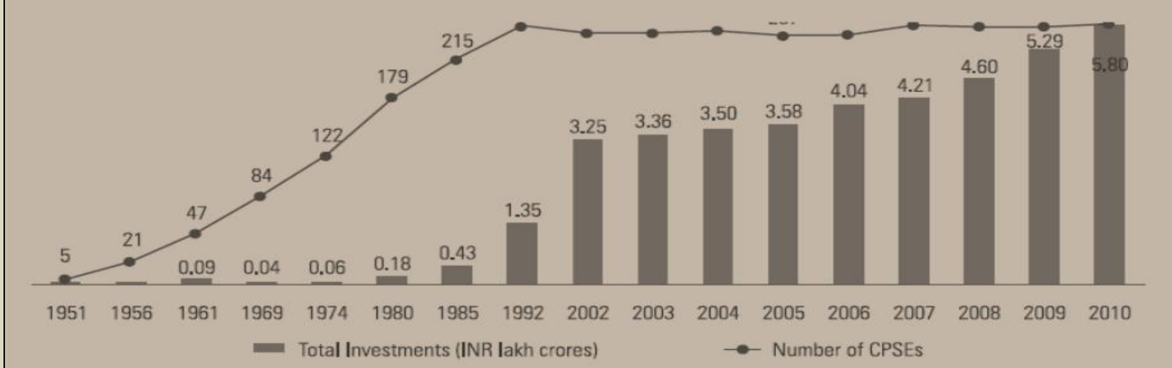
- The first category (Schedule A) included industries whose future development would be the exclusive responsibility of the state.
- The second (Schedule B) category included Enterprises whose initiatives of development would principally be driven by the State but private participation would also be allowed to supplement the efforts of the State.
- And, the third category included the remaining industries, which were left to the private sector.

In 1969, the government nationalized 14 major banks. The Industrial Licensing Policy 1970 places certain restrictions on undertaking belonging to large industrial houses, defined on the basis of assets exceeding Rs. 350 mn. In 1973, the definition of large industrial houses was adopted in conformity with that of the Monopolies and Restrictive Trade Practices Act (MRTP) 1969 External website that opens in a new window and included companies whose assets exceeded Rs. 200 mn. The Statement on Industrial Policy in July 1991was also significant. It brought in fundamental changes in the MRTP Act as well. The Statement revised the priority of the public sector.

## GROWTH STORY OF CPSES IN INDIA

The Central Public Sector Enterprises (CPSEs) have been a strategic lever for Indian economic development in both pre-independence and post-independence era. In pre-independence era there were very few CPSEs in India which were centric to Railways, the Posts and Telegraphs, the Port Trust, the Ordinance Factories, All India Radio, the Aircraft factories, etc. Over the years, CPSEs not only have grown in numbers but also in the range of activities such as manufacturing, engineering, steel, heavy machinery, textiles, pharmaceuticals, petro-chemicals, etc. This growth in span of CPSEs is a consequence of several initiatives taken during various Five Year Plans. The number of CPSEs as on 2010 was 249, with total investment of nearly INR 5.8 lakh crores against five CPSEs with total investment of INR 29 crores in 1951. The following fig. 1.1 depicts the growth of CPSES since 1951 to 2010.

**Fig 1.1: Growth of Public Sector Enterprises in India**




**Source:** Department of Public Enterprises, Public Enterprises Survey, 2009-2010

## CPSEs CONTRIBUTION IN INDIAN ECONOMY

### Contribution to GDP

Indian Central Public Sector Enterprises have indeed been the cornerstone in the Indian growth story. Off late, though these enterprises have faced competition in the global economy, citizen’s confidence in these government-led enterprises strengthened as they emerged intact post the recession owing to the strict risk management practice they have in place. They currently account for 23.7 percent of the nation’s total GDP

### Central Exchequer

Central Exchequer obtains revenue from CPSEs through two modes - namely investments in companies, and through taxes and duties paid. CPES contributed to the central exchequer INR 1.5 Lakh Crores in F.Y 2009 and INR 1.4 Lakh Corer in F.Y 2010.

### FOREX Earnings

CPSEs have contributed significantly to the overall foreign exchange earnings of the country through exports of goods and services with average contribution being around ten percent in the last five year. CPSEs FOREX earnings have grown with a CAGR of 14 percent from INR 46 thousand crores in FY2006 to INR 78 thousand crores in FY2010.

### Employment Generation

CPSEs employed 14.9 lakh people (excluding casual workers) in FY2010 as compared to 15.3 lakh in FY2009, a decrease of 2.8 percent. However, total salaries went up from INR 83.0 thousand crores in FY2009 to INR 90.9 thousand crores in FY2010, a growth of 9.4 percent.

## LAND RICH PSUs

On one side Government is thinking for raising capital by disinfesting some of the profit making PSUs and on the other side some of the PSUs are having cash surpluses of thousand of Crores of rupees as discussed belong and also having hundreds of acres of surplus prime land which can either be sold or leased out to raise the funds for expansion and diversification.

The following table is an example of surplus land with some of PSUs.

| LAND BANK OF SOME PSUs | | |
|---|---|---|
| **CPSE** | **Total Available Land** | **Land occupied by slum dwellers** |
| HMT Ltd | 2790 acre (free Hold)<br>245 acre (Leasehold) | 7 Acre at Bangalore, 20,000 Sqm in Aurangabad and 17 acres in Hyderabad. |
| NTC | 2239.32 acre | 156.22 |
| BSNL | 5,44,18,516 sqm | 72,607 sqm |
| MTNL | 9,88,750 sqm | 20,561 sqm |
| BHEL | 8000 acre (freehold)<br>7000 acre (leasehold) | 159.5 acre |
| Tunghadra Steel | 87,454 acre (freehold)<br>20,000 sqm (leasehold) | Nil |
| Cement Corporation | 2562.36 acre (freehold)<br>6,015 acre (leasehold) | Nil |

*Source: The Hindu Business Line Oct.22, 2010.*

While the government expects top CPSUs, some of which have huge cash reserves, to invest more, the CPSUs on their part want more freedom. CPSUs have been accorded Maharatna, Navratna and Miniratna status for the purpose of financial autonomy. There are five Maharatnas, 16 Navratnas and 68 Miniratnas. A Maharatna Company's board need not seek government permission for investments up to Rs. 5,000 crore in a joint venture project or a wholly-owned subsidiary. For a Navratna CPSUs, this limit is Rs. 1,000 crore.

Praful Patel, minister for heavy industries, backs the demand for more financial autonomy. "They have certain caps on spending and investment. We would like to see that it is further liberalized so that they are able to operate more freely in an ever-changing world", he recently said. However, the loss-making CPSUs, which have almost 20,000 hectares of vacant land, feel that if the aim of the policy is to make better use of available resources, they will have to fall in line, as monesting the land will help reduce the cash and non cash support being given to them. According to the recommendations of the Board for Reconstruction of Public Sector Enterprises (BRPSE), the government has provided assistance worth Rs. 26,108 crore to 45 CPSUs. This include over Rs. 4, 500 crore as cash and nearly Rs. 21,600 crore non cash aid (like interest waver, waiver of principal amount etc).

The government has two options in monetizing land. First to provide the facility of selling land, and the second option is to give the land on long term lease. But the list of CPSUs belonging to 38 Central Ministry shows that loss making ones, with surplus land are facing twin problems. First, they do not have cash to expand the production facility on additional land. Second encroachment by slum drivellers and other is creating problems. Even profit making CPSUs are facing this problem as shown in the table above.

**CASH RICH PSUS**

The PSUs are Cash Rich in as much as some of the PSUs such as Coal India and ONGC have cash pile of Rs. 58000 and 28000 cores respectively. As of 2011-12 according to Economic

Times PSUs were sitting on cash of close to two lakhs crores. The actual figure is almost certainly more since it only included large listed PSUs. And while the central Government owns a few hundred PSUs just few of them Coal India, ONGC, NMDC, NTPC and oil India account for around Rs. 1.35 lakh crore of the total cash surplus of PSUs.

Though these companies need some cash to meet their capital expenditure, the current level was for beyond their requirement in the short run to medium term.

| **CASH PILE WITH SOME PSUS AS OF 2011-12** | |
|---|---|
| **Name of the Company** | **Cash Pile (Rs Crore)** |
| Coal India | 58,203 |
| ONGC | 27,872 |
| NMDC | 20,2064 |
| NTPC | 18092 |
| Oil India | 10,935 |

*Source: Individual Companies Capital line, published in the Economic Times dated 3rd Nov. 2012*

**PERFORMANCE OF PSUs**

Public Sector Undertakings (PSUs) have always played a significant role in the overall socio-economic development of the country. Over the past few years, the public sector companies have made conscious efforts to improve their operational efficiencies and financial performance. The financial performance of 137 leading PSUs that fall within the ambit of the Central Government Undertakings. These companies were categorised into 97 non-bank companies including 14 NBFCs; 28 banks; nine insurance companies and three special institutions. The financial performance of these companies during financial year 2010-11 and quarterly performance during the first three quarterly of financial year of 2011-12 is shown as under

**Key financial performance highlights of Top PSUs during FY11 and Apr-Dec 2011:**

- Demand across most sectors remained healthy during FY11, which helped the aggregate overall income of Top PSUs increase 15.04% to ` 21,381.7 bn. Oil & gas, mining and banking, sectors that contributed substantially to the overall total income, registered healthy top-line growth of 21.8%, 19.5% and 18.1% respectively.
- Share of total income of 69 PSUs with Maharatna, Navratna and Miniratna status in the nonbank segment increased from 94.8% in FY10 to 96.1% during FY11. Overall income growth of Navratna companies increased the most by 22.7% whereas companies in the remaining two categories registered 18% income growth.
- The overall growth in top-line performance of the Top PSUs did not reflect in their profitability during FY11. This was because of an increase in operational expenses of most PSUs led by overall increase in raw material and fuel costs of more than 30% during the year. Capitalintensive sectors such as oil & gas and power recorded more than 25% growth in interest expense.

- During FY11, aggregate net profit of Top 137 PSUs increased a meagre 6% to ` 1,533.7 bn. Banks, which contributed around 29.3% to overall profit, was the only segment to record double-digit profit growth of 15%. Overall profit of Navratna companies increased 25% while Maharatna and Miniratna companies had a profit decline during FY11.
- PSUs paid dividends of ` 459.7 bn during FY11, which was 8.5% higher compared with FY10. Dividend payments of banks, which recorded healthy growth in profit, increased the most by 20.8% during the year.
- Demand continued to be healthy during the first three quarters of FY12 - listed PSUs registered a robust 29.1% growth in total income to ` 14,062.1 bn.
- Although PSUs managed to sustain their top lines, a 30% increase in raw material and fuel expenses, coupled with a 45% growth in interest expense compared with the previous year, seems to have resulted in 13.3% decline in net profit during Apr-Dec 2011.

**Coal India's Last 5 Year Performance:**

Coal India is the world's largest coal producer with reserves of over 250 billion tones. While sales have doubled in last five years, and profits have risen by 2.5 times, the share price has remained stagnant since its initial public offer in 2010 due to concerns over issues such as environmental clearance, land acquisition production and dispatch problems. But these problems seem temporary. Indian power industry cannot survive without domestic coal and no power means no growth. The government has realized this and in the past few months, environmental clearances have picked up, more rail rakes have been made available to move coal from mines to plants and the company has raised production. NTPC received more than 100% of committed coal from Coal India in the September quarter. So things could improve from here on. At a price of Rs. 350 company is trading at a price to book value of 5.4 – a discount to its peak valuation of 8. Given this, it remains one of the top value stocks. Concerns centre around what plans the company has to use the around Rs. 60,000 crore cash that it has on its books. Guidance on this will be positive for the stock.


*Source: the Economic Times Pune, 3rd Nov. 2012*

**DISINVESTMENT AND STAKE SALE**

Disinvestment of government equity in CPSEs began in 1991-92 with the setting up of Public Sector Disinvestment Commission. Post which, the Commission submitted reports on 58 CPSEs. Till 2000, it was mainly the sale of minority shares of CPSEs. The emphasis of disinvestment changed in favor of 'Strategic Sale' from 2000 till 2004:

- Emphasis is currently on unlisted profitable CPSEs, with each 'net worth' in excess of INR 200 crore, through Initial Public Offering (IPO)
- It also involves the sale of minority shareholding of the Government in listed and profitable CPSEs
- Government should retain the residual equity of at least 51 percent and also retain management control of the CPSEs

The government's disinvestment policy was identified as a tool to raise funds thereby reducing financing requirements the CPSEs. Following were the main objectives of disinvestment:

- Improving public finances
- Reducing financial burden on the Government
- Funding expansion plans
- Expanding share of ownership
- Minimizing government involvement in non-essential services.

**Disinvestment Receipts of PSUs**

Since the first disinvestment happened in 1991-1992, disinvestment has undergone change both in approach and policy to make the process more functional:

In 1991-2001, 31 CPSEs were divested for INR 3.0 thousand crores. In this period, disinvestments were mostly by way of minority stake sale. Unit Trust of India picked up minority stakes in several companies that were divested during this period. In 2001-2009, maximum disinvestment occurred in FY 2004, INR 15.5 thousand crores. The following table depicts the disinvestments amount raised by the government from 2000-01 to 2012-13.

| **DISINVESTMENTS IN CPSEs (IN INR CRORES)** | | |
|---|---|---|
| **Year** | **Budgeted Receipt** | **Achieved Receipt** |
| 2000-01 | 10,000 | 1,871 |
| 2001-02 | 12,000 | 5,658 |
| 2002-03 | 12,000 | 3,348 |
| 2003-04 | 14,500 | 15,547 |
| 2004-05 | 4,000 | 2,765 |
| 2005-06 | No fix target | 1,570 |
| 2006-07 | No fix target | 0 |
| 2007-08 | No fix target | 4,182 |
| 2008-09 | No fix target | 0 |
| 2009-10 | No fix target | 23,553 |
| 2010-11 | 40,000 | 22,144 |
| 2011-12 | 40000 | 14000 |
| 2012-13 | 30000 | 22000 (Estimated till Jan.2013) |

*Source:- DPE, Survey 2009-10 & The Economic Times Pune 10th Dec. 2012.*

The government had set itself a target of raising Rs. 30000/- crore in 2012-13 through the disinvestment process but was unable to undertake any share sale in the first six months of the current fiscal as there were differences over pricing and other issues. Several companies including NALCO, RINL & BHEL were considered as disinvestments units but for a variety of reasons no headway was made.

The disinvestment programme for the year finally kicked off with the Rs.807 crore, Hindustan copper IPO in the month of Nov. 2012. The government hopes to raise Rs. 12500 crore from the sale of NTPC shares and another Rs. 2500 crore by selling a 10 percent stake in Oil India in the current fiscal year 2012-13.

## CHALLENGES FACED BY CPSEs

While CPSEs have started witnessing considerable rebound and are poised for growth, there are still some roadblocks which may restrict their full throttle growth, some of these include:

- **Corporate Governance:** There is lack of proper governance structure for CPSEs which often inhibits the transparency and free functioning of these enterprises. Multiple reporting agencies exist with separate agenda, thereby, retarding the growth of CPSEs.
- **Scope for improvement in projects and operations management:** CPSEs need to benchmark their capabilities and offerings with private players in order to remain competitive and aligned to pace of the industry. CPSEs need to adopt an integrated approach to offer a sound value proposition to the market rather than working in isolation
- **Development and management of manpower:** It is utmost important for any organization to have the right pool of resources, and the same holds true for CPSEs as well. Recruitment of right talent, training of manpower, matching the skills and job responsibilities, and keep the workforce motivated can act as a catalyst for a CPSEs growth
- **Lack of financial autonomy:** CPSEs do not enjoy financial independence unlike their private counterparts which often lead to delays in decision making. Formulating a business case for fund raising, seeking approvals, etc. can be an arduous task for CPSEs
- **Political interference:** There is often a clash between agenda of political parties and objectives of CPSEs which may impair their growth and autonomy. Being a public enterprise, political parties are likely to have influence on decision making of these CPSEs as well
- **Bureaucracy, red-tapism and corruption:** Lack of proper governance, transparency, etc. may translate into bureaucratic and corrupt environment within some CPSEs, leading to a tarnished image of the entire set of CPSEs.

## CONCLUSION:

The recent announcement of Mr. P. Chidambaram, Finance Minister of India to raise Rs. 30,000 crore from disinvestment of PSUs in the current financial year 2012-2013 raises the question that is public ownership of industry inherently inferior to the private ownership? And Is plugging the fiscal deficit a sound reason for disinvestment?

As far as the performance of PSUs are concerned PSUs delivered reasonable returns to the investors unlike their private peers. PSUs contribution to national GDP is 23.7 percent. It contributed Rs. 1.5 lakh crores and Rs. 1.4 lakh crores to the Central Exchequer during the financial year 2009 and 2010 respectively. It contributed Rs. 78 thousand crores to forex earnings in financial year 2010. CPSEs Employed 14.9 lakh people excluding casual workers in financial year 2010.

The findings of may research studies on the performance of PSUs shows that the perception that the private sector is uniformly superior to the public sector rest on the week evidential foundation.

As regards the answer to the second question. Is plugging the fiscal deficit a sound rational for disinvestment. The answer is No. The government should not sell the family silver to pay the butler. The PSUs are Cash Rich and Land Rich can be evident from the above facts and figures. If at all government needs funds for expansion of PSUs and social spending they can very well utilize the surplus cash reserves and sell the surplus extra lands with them instead of divesting the PSUs. There is need for divising mechanism for more effective governance then disinvestment.

## REFERENCE:

1. KPMG and ASSOCHAM report on public sector enterprises transformation competitiveness and sustainability
2. The Economic Times Pune 3rd Nov. 2012
3. The Publication India's Top PSUs 2012
4. The Hindu Businessline 22nd Oct. 2012
5. The Economic Times 10 Dec. 2012